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UNDERSTANDING WHEN MNCS CAN OVERCOME

INSTITUTIONAL DISTANCE: A RESEARCH AGENDA

Johann Fortwengel
King's Business School
King's College London
Franklin-Wilkins Building
SE1 9NH London, United Kingdom
Email: johann.fortwengel@kcl.ac.uk | Phone: +44 (0)20 7848-3882
ORCID: orcid.org/0000-0002-0765-1274

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ABSTRACT

Classic research in International Business (IB) has emphasized the constraining effects of host institutions on the behavior of foreign Multinational Corporations (MNCs). Meanwhile, other research shows *why* this type of organization may be uniquely positioned to engage in behavior deviating from standard practice in a certain setting, and *how* it may do so over the course of engaging with host environments in order to overcome the distance between home and host country. We know significantly less about *when* particular context conditions actually translate into behavior involving MNCs overcoming institutional distance. Drawing on facets of the comparative capitalisms (CC) literature, this paper maps out how institutional distance involves four key dimensions: coordination, strength, thickness, and resources. The paper argues that the particular combination of these dimensions forming configurations of institutional distance will influence when MNCs are able to overcome distance, conceptualized as behaving in deviant ways. A research agenda is developed, paying special attention to how complex causal effects can be studied using qualitative comparative analysis (QCA) and multiple case studies. More broadly, this paper refines and enriches our understanding of the context conditions that make deviant firm behavior possible.

Keywords: Research agenda; institutional distance; Multinational Corporations (MNCs); deviant behavior; comparative capitalisms (CC); configurational approach.

1 INTRODUCTION

How can we account for the puzzling phenomenon that Multinational Corporations (MNCs) appear, under certain conditions, to be able to behave in ways deviating from standard practice in host countries? Most existing research in international business (IB) emphasizes the importance of institutional distance between a country pair (Kostova and Zaheer 1999) in largely prescribing behavior (Henisz and Swaminathan 2008). For example, Xu and Shenkar (2002, p. 614) maintain that "firms will refrain from investing in markets that are institutionally distant, because business activities in those markets require conformity to institutional rules and norms that conflict with those of the home country". Meanwhile, empirical studies describe how MNCs engage with host institutions in order to transfer foreign practices (Fortwengel and Jackson 2016), introduce new technologies and products (Regnér and Edman 2014), or leverage capabilities (Carney et al. 2016), in the process deviating from dominant behavioral patterns in host settings. These empirical observations are still largely unexplained in a theoretical sense (Shepherd and Suddaby 2017), meaning that we have an underdeveloped understanding of when distance is constraining, and when it allows for digression.

It is widely observed that firms usually conform "to the norms and regulations imposed by the external environment" (Bitektine 2011, p. 158). However, the large and growing body of literature on organizational deviance, defined as "intentional behaviors that significantly depart from the norms of a referent group" (Spreitzer and Sonenshein 2004, p. 841)[1], shows that firms may choose not to conform to existing norms and regulations. MNCs are uniquely positioned to engage in behavior deviating from standard practice in host settings. For one, this is because MNCs span multiple countries (Roth and Kostova 2003), and thus are aware of different approaches to solving common coordination problems, such as those related to corporate governance (Aguilera and Jackson 2003). Their multiple embeddedness (Meyer et al. 2011)

[1] Spreitzer and Sonenshein (2004) focus on positive deviance, i.e. behavior that deviates in honorable ways. In contrast, in this paper here I am concerned with deviant behavior in general, without a normative underpinning.

provides them with a multitude of templates or scripts to follow. Furthermore, it has been suggested that their organizational identity as foreign and as a 'minority' enables experimentation (Edman 2016). Similarly, an increasing number of studies examines how exactly MNCs engage with foreign environments. For example, Regnér and Edman (2014) describe how Pharmacia introduced its anti-smoking product Nicorette to the U.S. market. They show how this involved Pharmacia actively engaging with preexisting norms and cognitions, even including co-writing the rules and regulations of the Food and Drug Administration (FDA). In the process, Nicorette was successfully positioned as a legitimate product. Through these and similar activities related to institutional work, involving attempts to create, maintain, or disrupt institutions (Lawrence, Suddaby and Leca 2009), MNCs actively engage with host settings.

As such, IB research has developed a good understanding of *why* MNCs are in a position to envision and implement deviating behavior (Kostova et al. 2008), related to their minority position and multiple embeddedness, and *how* they engage in activities targeting the host environment in this process (McGaughey et al. 2016), through activities related to institutional work and entrepreneurship. What is less well understood, however, is *when* exactly the favorable position of being embedded in various country contexts simultaneously actually translates into behavior successfully deviating from dominant patterns in a particular host setting.

Leveraging the growing interest in understanding better when organizations may not conform to institutional norms, rules, and values (Aguilera et al. 2016), this paper draws on facets of the comparative capitalisms (CC) literature to map out a research agenda to examine conditions influencing the ability of MNCs to overcome institutional distance. Overcoming institutional distance is defined here as the ability to engage in behavior deviating from the standard in a particular host setting. This differs from alternative conceptualizations framing the mere non-exit of a foreign subsidiary as overcoming institutional distance (Kang et al. 2017), or the argument that adapting to local patterns of behavior may be another appropriate strategy to deal with distance. However, overcoming distance as involving deviating behavior, that is, adopting practices “that fall outside the zone of conformity” (Aguilera et al. 2016, p. 17) in a particular host environment, can be very important because it enables firms to replicate their competitive advantages or operate effectively across borders (Kogut and Zander 1992), which frequently involves the transfer of knowledge and practices from home to host country. Drawing on insights from CC literature (Hall and Soskice 2001; Whitley 1999), which explores how institutions shape firm behavior and organizational strategies and practices but recently has developed greater appreciation for agentic and deviant behavior (Aguilera et al. 2016; Becker-Ritterspach et al. 2017; Morgan 2011), this paper aims to contribute to a mapping of the conditions that enable MNCs to overcome distance by addressing the following theoretical puzzle: *When are MNCs enabled to engage in deviant behavior in institutionally distant settings?*

Overcoming distance and behaving in ways different from those typical of a particular host country is not always sought, to be sure. For example, MNCs frequently engage in tactics of institutional arbitrage (Witt and Lewin 2007) or segmentation (Edwards et al. 2013), meaning that foreign operations are strategically located in settings offering particular competitive advantages, such as low labor costs. Acknowledging this important observation, which forms a critical boundary condition of the arguments developed here, this paper is concerned with the multitude of cases where MNCs indeed attempt to overcome institutional differences for purposes of global integration and the replication of key capabilities. This paper thus focuses on an important sub set of MNC strategies, which relates to concepts such as institutional innovation (Regnér and Edman 2014), acting as ‘organization-creating organization’ (Westney 1987), or responding by manipulating (Oliver 1991).

To map out a research agenda, this paper builds on CC research to offer a configurational framework of institutional distance as a defining feature of the institutional context conditions affecting MNC behavior, involving four key dimensions: coordination, strength, thickness, and resources. With its focus on particular context conditions as well as its appreciation for potentially complex causal as opposed to linear effects, the literature on comparative capitalisms offers a unique angle to explore what conditions enable MNCs to overcome distance. Building on recent advances in configurational approaches (Haxhi and Aguilera 2017; Misangyi et al. 2017), one central argument developed in this paper is that different cases of configurations will make overcoming institutional distance more or less likely.

The paper makes several contributions to existing literature. First, it advances our understanding of agency in and by MNCs by offering the concept of overcoming institutional distance as involving behavior deviating from standard practice in a particular foreign setting. This adds an important conceptual idea to the repertoire of IB scholars trying to make sense of the relationship between institutions and MNCs. Second, by mapping institutional distance as involving four critical dimensions, this paper provides a more contextualized notion of institutional distance, going beyond purely relational aggregate measures. Finally, by focusing on the bundles of conditions and their complex effects on the ability to overcome institutional distance, this paper charts new territory for studying MNC responses to institutional distance. More broadly, the paper contributes to the literature by shifting attention away from the firms as (possible) agents (Kostova et al. 2008) and their activities (Regnér and Edman 2014) to focus instead on the institutional context conditions and their complex effects on enabling or constraining MNCs as collective actors. This promises to push the boundaries of our understanding of when and why institutional distance constrains firms, and when and why it allows for digression. Because MNCs are uniquely positioned to engage in deviant behavior and may trigger and drive institutional dynamics in the process, the arguments developed in this paper may have some important implications for the broader organization studies and comparative management literature on institutional stability and change (Dörrenbächer and Geppert 2017; Hotho and Saka-Helmhout 2017; Saka-Helmhout et al. 2016).

2 INSTITUTIONAL DISTANCE AS A MULTI-DIMENSIONAL CONCEPT

Institutional distance is a key concept in IB research (Berry et al. 2010; van Hoorn and Maseland 2016)—after all, “international management *is* management of distance” (Zaheer et al. 2012, p.

19; emphasis in original). What is more, recent research shows that distance is not decreasing (Beugelsdijk et al. 2015), despite increasing levels of socio-cultural and business exchange between countries, suggesting that distance will continue to be an important part of the challenge of managing MNCs in their constant grapple with the lack of external fit in a host environment (Fortwengel 2017). In recent years, scholars have moved beyond aggregate and singular concepts of distance and come to appreciate the complexities involved in institutional environments as multi-dimensional (Berry et al. 2010; Ferner et al. 2012; Jackson and Deeg 2008; Kang et al. 2017). Meanwhile, research on these multi-dimensional concepts and constructs often relies on classic regression analyses in order to determine the individual or additive and net effects of sets of dimensions on MNC behavior (Berry et al. 2010). While these approaches have been extremely helpful in furthering our understanding of how different distance dimensions matter, they might miss important interaction effects between those dimensions, and thus struggle to explain and account for cases where MNCs behave in ways deviating from standard practice in host settings (Regnér and Edman 2014).

The issue of interaction effects within and across levels is gaining increasing attention in the field of IB (Andersson et al. 2014; Ang et al. 2015; Cortina et al. 2015). However, the potential complexity of these effects in terms of configurations has received limited attention thus far (for an exception, see Pajunen 2008). Correspondingly, Zaheer et al. remind us that there is still much to do: "[w]e have to conceptualize why we think distance matters, how we think its effects play out and exactly what mechanisms are at work in the process" (2012, p. 24). In particular, our understanding of the particular conditions enabling MNCs to overcome institutional constraints is still underdeveloped. In a similar vein, Harzing and Pudelko (2016) remind us to pay more attention to the particular context of home and host country, thereby suggesting a more holistic view on institutional context conditions more broadly, and differences between country pairs in particular.

In recent years, IB scholars have made progress in understanding better what dimensions and features of an institutional environment are critical for MNC behavior. First, it is now widely understood that countries differ in the way businesses *coordinate* their activities, broadly ranging from markets to non-market relations. Second, institutions differ in *strength*, meaning that the pressures to conform to standard practice vary. Third, institutions often differ at the *intra-national* level, meaning that even locations that are in close geographic proximity within a country may be far apart in institutional terms. And finally, it is increasingly understood that institutions not (only) constrain organizations, but that they also offer *resources* that may be used by collective actors for particular purposes. These advances are often grounded in CC research, which offers a theorized understanding of why and how business practices vary across (country) contexts (Dörrenbächer and Geppert 2017; Jackson and Deeg 2008). The next sections discuss these four critical dimensions of institutional distance before mapping out a research agenda based on the premise that different cases of distance as configurations will have complex effects on MNCs' ability to overcome institutional constraints by moving 'out of the comfort zone' and engaging in deviant behavior. In line with previous research, deviant behavior may include a broad set of issues, such as the transfer and implementation of a new organizational practice (Fortwengel and Jackson 2016) or the introduction of a new type of technology or product (Regnér and Edman 2014).

2.1 The Role of Coordination

Institutional distance measures are typically computed by aggregating values for issue-specific cognitive, normative, and regulative dimensions constituting a particular institutional environment (Kostova 1999)—the greater the degree of geometric distance between two countries, the larger the negative effect of distance, due to the relative size of the misfit between home and host country (Kostova and Roth 2002). This classic conceptualization builds on Scott's (2008) idea of the institutional environment as involving three interrelated pillars—cognitive, normative, and regulative. This perspective on institutional distance has proven to be valuable for answering a number of pressing research problems in IB, such as the question why MNCs often struggle to successfully transfer practices to their foreign subsidiaries (Kostova and Roth 2002). However, this classic perspective on institutional distance also misses a number of potentially important explanations of how and why exactly the particular institutional distance between two countries matters. Jackson and Deeg (2008) have drawn on insights from comparative capitalisms literature to make the argument that institutional distance may often be about the particular difference in terms of how business activities are coordinated in a certain institutional setting (Hall and Soskice 2001; Whitley 2007). In a similar vein, Ahmadjian (2016) makes the important observation that comparative capitalisms research suggests that country settings are characterized by a particular 'societal logic.' For example, both varieties of capitalism (Hall and Soskice 2001) as well as national business systems (Whitley 1999) literatures argue that some countries are more market-driven, such as the U.S. or the UK, while in others firms tend to coordinate their activities by relying on relational and strategic forms of coordination, as is the case in Germany and Japan. Notably, these broader logics of coordination span across a variety of institutions, including institutions of workforce training and corporate governance, amongst others. More specifically, the varieties of capitalism framework posits that countries can be arrayed along a continuum, depending on whether firms typically coordinate their business activities by relying on arm's-length market transactions, or on more strategic forms of coordination, whereby firms and other stakeholders, such as labor unions and employer associations, coordinate business activities by relying on more relational forms of coordination (Hall and Soskice 2001). Empirical research finds that economies indeed cluster in non-random ways, depending on degree of coordination, where one end of the spectrum describes arm's-length market relations and the other suggests more strategic relationships to coordinate firm activities (Hall and Gingerich 2009; Hotho 2014).

Importantly, the CC perspective with its emphasis on coordination helps explain how exactly institutional distance matters, and why MNCs may find it hard to overcome or 'bridge' a particular kind of institutional distance (Kogut and Zander 1992; Westney 1987). For example, empirical research finds that the shareholder value paradigm is much less diffused in the German institutional environment compared to countries such as the U.S. and the UK (Jürgens et al. 2000; Sanders and Tuschke 2007). This includes strategic organizational practices associated with shareholder value, such as stock option pay (Fiss and Zajac 2004). Looking at patterns of coordination between firms, one can explain this empirical finding by arguing that these market relations are not supported by Germany as an environment facilitating more strategic forms of coordination. Accordingly, market-based practices face opposition from a set of stakeholders, including labor unions. Conversely, German firms encounter severe problems in their attempts to transfer more relational practices to countries such as the U.S. and the UK (Geppert et al. 2003). This is because these host environments do not offer the particular collective supplies more relational and strategic forms of behavior rely on, such as employer associations or strong roles for the state to facilitate coordination, instead supporting market-based coordination between collective actors (Fortwengel and Jackson 2016).

There is existing research in IB that acknowledges these more macro aspects of institutional environments, involving a broader logic of how business is typically conducted in a particular environment, and how this may impact MNCs from various countries in distinct ways (Geppert et al. 2003; Heidenreich 2012; Hotho and Saka-Helmhout 2017; Hotho 2014; Jackson and Deeg 2008). Furthermore, previous research has begun to tackle the challenge of constructing measures to capture institutional distance from a comparative perspective (Hotho 2009). What is less well understood is how these differences in terms of coordination interact with other critical dimensions to affect the ability of MNCs to overcome distance. Therefore, scholars struggle to explain puzzling success cases of MNCs that were able to overcome distance, such as when a U.S. firm behaves in ways deviating from standard practice in Japan (Regnér and Edman 2014), or when German firms deviate from standard behavior in the U.S. (Fortwengel and Jackson 2016).

2.2 The Role of Institutional Strength

Institutional distance typically refers solely to the difference in terms of institutional setting between a pair of countries. What this perspective misses is that institutions can be weak or strong, and that institutionalization is a matter of degree (Jackson 2010; Phillips et al. 2009; Selznick 1957). This is unfortunate, as different levels of strength of institutions are likely to affect MNC behavior in distinct ways (Faulconbridge and Muzio 2015). In other words, context always matters, but it may matter more or less in different situations and constellations.

Here, IB scholars may be inclined to argue that high[2] levels of institutional strength may be conducive to overcoming institutional distance. For example, IB scholars often look at emerging market economies arguing that their institutional settings tend to lack sufficient stability to support market transactions, thus raising transaction costs for foreign MNCs to a potentially prohibitive level (Meyer 2001). As such, there is a widespread understanding in IB that institutions can be emergent or more established (Henisz and Zelner 2005), and usually it is argued that strong institutions have a positive effect on firms, as they enable market exchange by reducing uncertainty and thus overall transaction costs (Meyer et al. 2009; van Hoorn and Maseland 2016). Meanwhile, there is some research suggesting that institutions can become hyper-stable or path-dependent (North 1990), suggesting that deviant forms of behavior are largely inconceivable (Pierson 2000) or highly penalized (North 1990). These high values of institutional strength can, under certain conditions, be detrimental to MNCs in their quest to coordinate business activities across locations and countries. This is because in these cases MNCs will face high pressures to conform to an established pattern of behavior, and thus are unable to behave in deviant ways and overcome distance. Similarly, research in the neighboring field of organization theory discusses the role of different degrees of institutionalization as one important

[2] Please note that this is not to be confused with the dominant approach in the IB literature of measuring the degree of distance dimensions (see Jackson and Deeg 2008). Rather, it helps determine set membership (see Ragin 1987), allowing for exploring configurations and complex effects as discussed in the CC literature.

condition influencing change activities by individual or collective actors (Battilana et al. 2009). Applied to the IB context, this idea suggests that, contrary to what much of current IB research proclaims, high institutionalization may be detrimental to MNCs, as it may reduce the likelihood that an MNC may successfully overcome institutional distance.

More broadly, scholars increasingly acknowledge that certain forms of behavior can be more or less institutionalized, more or less legitimate, and more or less supported by the surrounding institutional landscape. For example, institutions of education and training or those of corporate governance are present across countries, but they may exert stronger or weaker pressures for conformity (Aguilera et al. 2016). The strength of certain pressures suggesting one form of behavior—as opposed to alternative ways of doing things—thus varies greatly, and constitutes an important dimension of institutional distance for MNCs.

Meanwhile, variation in institutional strength (Levitsky and Murillo 2009) has implications going far beyond the question of whether there are strong enough institutions for market transactions (Meyer et al. 2009). Rather, institutional strength can be defined more broadly as the relative degree of pressure for conformity in a certain setting. From this perspective, it is conceivable that there are some conditions under which higher levels of institutional strength will negatively influence MNCs in their attempts to coordinate their activities across borders, in order to reap the benefits of their distinct capabilities and resources (Zander and Kogut 1995). This argument makes a useful contribution to furthering our understanding of why and when overcoming distance is possible: if institutions can be strong or weak (Levitsky and Murillo 2009), compliance high or low (Mahoney and Thelen 2010), enforcement high or low (Aguilera et al. 2016), and the cost (and therefore likelihood) of noncompliance high or low (North 1990; Voigt 2009), this is likely to affect the ability of MNCs to engage in behavior deviating from standard practice in a particular host environment. For example, even in cases of significant institutional distance between home and host country in terms of coordination, if institutionalization is low in the host environment, a foreign MNC might still be able to transfer its practices and strategies—thus the difference between institutional environments is less relevant. For example, Western firms have been successful in transferring some of their core business practices to their joint ventures and foreign subsidiaries in China (Björkman et al. 2008), largely because this particular host environment was characterized by weaker institutional pressures and thus was more susceptible to change and adaptation initiatives. Similarly, Westney (1987) makes the argument that it was precisely the absence of rules and regulations—i.e. weak or even absent pressures for conformity—that facilitated the transfer of Western practices to Meiji Japan, a time period in which Japan changed dramatically in terms of social, economic, and cultural institutions. Relatedly, Faulconbridge and Muzio (2015) show that institutional host settings may undergo periods of change and even turmoil, opening up windows of opportunities for foreign MNCs to change dominant practices, as illustrated by their case study of English professional services firms in Germany after it had adopted some more market-based characteristics, such as greater emphasis on mergers and acquisitions and the stock market for capital provision.

Conversely, extreme values of institutional weakness may also infringe on MNCs' ability to overcome institutional distance and behave in previously marginalized ways in a particular setting. For example, if the host environment changes often and rapidly or is very fragile, a particular organizational practice or business model may not receive the necessary institutional support over a sustained period of time. The relationship between institutional strength and the ability to overcome institutional distance may thus take the form of an inverted U-relationship, where both high levels of strength and weakness have negative effects. Importantly, the dimension of institutional strength as one predictor variable may interact with other dimensions to create complex causal effects on overcoming distance by an MNC as an outcome of interest.

2.3 The Role of Meso-Level Institutions

Typically, institutions in IB are conceptualized at the macro level of the nation state. For one, this is not surprising, given that international business as a discipline has always been concerned with the various effects of context on firm activities, with context mostly operationalized at the nation-state level (e.g., Dunning 1988). However, in recent years IB scholars have come to appreciate the potentially important role of meso-level institutions and sub-national variances (cf. Chan et al. 2010). This may involve relevant differences between states, regions, cities, provinces, or counties within a particular host country. More broadly, conceptualizing institutions and distance as multi-level phenomena (Phillips et al. 2009) is appropriate, given that organizations operate across a variety of levels simultaneously (Hitt et al. 2007).

There is a growing amount of research highlighting the role of sub-national variation, be it with regard to culture (Beugelsdijk et al. 2014; Tung and Verbeke 2010), institutional context more broadly (Crouch et al. 2009; Lane and Wood 2009), or within-country differences of practices (Walker et al. 2014). What is more, this idea is increasingly applied to non-Western and emerging economy settings (Witt and Redding 2014). Thus there is an increasingly sophisticated understanding that sub-national factors are important in IB processes (Ma et al. 2013; Manning et al. 2012), such as relative outsourcing or insourcing of R&D (Santangelo et al. 2016). For example, Meyer and Nguyen (2005) find that foreign investors choose to locate their operations in those provinces of Vietnam which tend to support market transactions. And Chan et al. (2010) show that sub-national region has an effect on firm performance.

Sub-national variances are thus likely to have significant effects on the ability of MNCs to overcome institutional distance, conceptualized as behaving in deviant ways. For example, previous research finds that English law firms found it easier to internationalize their activities to Italy by (re-)locating to Milan, a ‘sub-field’ within the broader institutional environment they found to be more accommodative to their particular practices and routines (Faulconbridge and Muzio 2016). Similarly, one might assume that a U.S. company interested in market entry into China will find it easier to replicate market-based behavior in a city like Shanghai, as opposed to setting up its facility in a less populated and business-friendly location in mainland China, where deviance from non-market patterns of behavior may encounter significant opposition (cf. Ma et al. 2013). This suggests that institutional distance may differ substantially depending on within-country variation in host environments—geographically close locations within one particular country may be worlds apart in institutional terms.

Meanwhile, IB scholars often find it difficult to conceptualize and operationalize variances at the sub-national level. In this context, the concept of institutional thickness might help to conceptualize, and ultimately measure, within-country differences (Amin and Thrift 1995; Sydow and Staber 2002). Building on prior research, it can be defined as the relative degree of multiplicity of support for a particular cause. Institutional thickness is a concept that has been developed in the neighboring economic geography literature, and it describes the observation that organizations located in the same regional environment interact with each other to varying degrees, and in the process can develop shared understandings and objectives to a greater or lesser extent. More specifically, Amin and Thrift (1995) claim that regional environments are characterized by specific sets of organizations, such as firms, associations, local authorities, and research bodies, which may have varying degrees of interaction between them in terms of cooperating on particular topics and issues, and as a result may develop varying degrees of mutual awareness and a shared understanding of a common purpose and objectives. Unlike the similar concept of the organizational field as developed in neo-institutional theory (DiMaggio and Powell 1983), institutional thickness has a spatial dimension, and as such seems appropriate to apply to examining the various organizations located in a particular local region.

Recent research in IB highlights the role of space and location (Zaheer and Nachum 2011), and it also hints at the importance of varying degrees of institutional support infrastructure. For example, U.S. firms in Japan face the distinct challenge that their market-based routines and practices do not fit the relational forms of coordination dominant in this particular business system. Meanwhile, U.S. firms are being supported by the American Chamber of Commerce in an endeavor to institutionalize more market-based institutions of corporate governance, such as the introduction of independent directors (Ahmadjian 2016). Here, institutional thickness helps

U.S. firms to promote local and issue-specific institutional change and overcome institutional distance enabling deviant behavior. Similarly, industrial districts and clusters as well as special economic zones may offer particularly thick context conditions (Arikan and Schilling 2011). In contrast, German firms are found to struggle in Egypt (Becker-Ritterspach et al. 2017), not least because of the absence of institutional thickness at the sub-national level.

However, institutional thickness as a further dimension of institutional distance is likely to have complex effects as well. For example, while the presence of like-minded organizations in a particular sub-national setting may help implement certain types of practices and forms of behavior in accordance with their templates and routines, it is also conceivable that high degrees of thickness may reduce the receptiveness to foreign and novel kinds of behavior (cf. Faulconbridge and Muzio 2016). More broadly, institutional thickness relates to the wider institutional environment at the country-level as a lower-order concept, and can thus be considered embedded, or nested, in national institutions at higher-order levels. As such, there are likely important interaction effects with other dimensions, including the question to what extent the host environment offers foreign MNCs resources to be used in processes of overcoming distance (cf. Deeg and Jackson 2007).

2.4 The Role of Institutions as Resources

Institutions are typically understood as putting constraints on MNCs (Henisz and Swaminathan 2008; Henisz and Delios 2001). For example, institutional distance is often found to negatively influence the capacity of MNCs to engage in practice transfer (Kostova and Roth 2002), and research finds that distance increases the likelihood of foreign subsidiary exit (Kang et al. 2017). In contrast to these views, there is a growing stream of literature in IB and beyond acknowledging the positive and enabling function of institutions (Ahmadjian 2016; Deeg and Jackson 2007; Hotho and Saka-Helmhout 2017). While the notion of resources in the context of institutional processes is conceptualized typically at the level of the (collective) actor aiming for and driving particular institutional dynamics, and often involves financial and social resources (Battilana et al.

2009), institutional settings themselves may offer resources to firms. Here, resources are thus a function of the institutional environment, rather than the organization. Importantly, these available resources may help MNCs to overcome institutional distance. For example, Westney (1982) illustrates how the transfer of the Paris model of the police to Tokyo involved drawing on the Japanese army in terms of self-image, personnel, training and education, and even the uniforms. In a similar vein, Pharmacia engaged with the FDA in order to introduce and gain legitimacy for its Nicorette product in the U.S. (Regnér and Edman 2014). More specifically, the organization built on the existing regulatory infrastructure, but then used it in a creative way and helped write the FDA guidelines that would allow its product to be sold on this important foreign market.

Notably, resources in the foreign institutional environment may not necessarily be directly present or at the surface, but may instead be dormant, waiting to be revived for particular and potentially novel purposes. Research in the neighboring discipline of sociology claims that these resources may be remnants of the past, which can be built on creatively, and as such made use of as resources. For institutions emerge over long periods of time and ‘losing’ institutions do not necessarily disappear, but may remain dormant, potentially to be used at a later stage, and maybe for different purposes (Crouch and Farrell 2004; Djelic and Quack 2007). Schneiberg (2007) discusses this as the ‘paths not taken’ when trying to account for pockets of more cooperative forms of activity in the U.S. economy, despite its overarching liberal market environment. Similarly, institutional frameworks often emerge through processes of layering (Mahoney and Thelen 2010), which describes a situation in which new institutions are added onto existing ones—old institutions thus do not simply break down, but may be potentially revived or used for new purposes by MNCs and other organizations. More broadly, this addresses the increasingly popular idea that institutional environments are characterized by a plurality of different logics (Crouch 2005; Thornton and Ocasio 2008). When these logics overlap or are ambiguous (Jackson 2005), this may open up opportunity for foreign MNCs to overcome distance and create small spaces to follow patterns of behavior deviating from standard practice in the host setting.

Resources offered by the host environment provide foreign MNCs with building blocks to be used, reinterpreted, or adapted to novel ends in creative ways, in order to overcome institutional distance and behave in ways previously marginalized in a particular host setting. For example, Crouch (2005) develops the argument that diversity and plurality enable organizations to engage in 'recombinant governance,' enabling new—and potentially deviant—behavior. However, an overabundance of resources may be detrimental to overcoming institutional distance because of the institutional complexity this entails (Greenwood et al. 2011). A similar argument is made by Micelotta et al. (2017), who discuss competing arguments as to whether institutional plurality facilitates or rather impedes attempts to engage in institutional change. Again, one could think of an inverted U-relationship to describe these effects, whereby both high and low values of resources available may be detrimental to MNCs in their quest to overcome distance. Notably, the availability of resources is likely to interact with other dimensions to affect the ability of MNCs to overcome distance. Next, I will discuss the question of how one might study the complex effects ensuing between the four dimensions of institutional distance as presented in this paper, in order to build a middle-range theory (Merton 1968) of the conditions enabling MNCs to engage in deviant behavior in foreign settings.

3 DISCUSSION

This paper started out from the observation that an increasing number of studies documents instances where MNCs were able to overcome institutional distance (Fortwengel and Jackson 2016; Regnér and Edman 2014), conceptualized here as engaging in behavior deviating from standard practice in the host setting, thus asking us to reconsider the dominant perspective that host institutions put constraints on foreign MNCs (Saka-Helmhout et al. 2016). Rather, MNCs do indeed seem able to—sometimes—leverage their field position to engage in behavior departing from existing norms, cognitions, and rules and regulations in a particular host country. In fact, there are some particularly puzzling cases where MNCs were able to overcome very significant institutional distance, such as the distance involved between market and relational economies (Faulconbridge and Muzio 2015; Regnér and Edman 2014). What is less well understood, however, is what conditions exactly enable MNCs to leverage favorable conditions related to their multiple embeddedness and minority identity and overcome institutional distance. While MNCs do not always seek to deviate from host-country norms and rules, CC literature not least suggests that MNCs often have an interest in behaving in novel and deviant ways in foreign environments, in order to transfer and replicate comparative institutional advantages from their home-country setting (Becker-Ritterspach et al. 2017).

To advance our understanding in this realm, the paper takes a neo-configurational perspective (Misangyi et al. 2017) on institutional distance as involving four critical dimensions: difference in terms of coordination, strength, thickness, and resources. While these are host-country level dimensions, they are meaningful only in relation to how they compare to the home-country setting, and thus capture institutional distance as a theoretical concept and 'social fact' for MNCs to cope with. Importantly, these dimensions may interact in complex and perhaps even opposing ways, thus forming particular 'gestalts' (Campbell et al. 2016). For example, market-based coordination appears to enable MNCs and other collective actors to deviate sometimes from standard practice (Schneiberg 2007), while in other cases it constrains the room for maneuver (Aguilera et al. 2016). To better understand and explain when exactly MNCs may be able to overcome particular kinds of distances, we might need to look at other dimensions, and explore how they interact with each other to produce certain outcomes. Drawing on IB research and recent advances in CC research in particular, this paper identifies institutional strength, institutional thickness, and institutional resources as further important dimensions that combine in unique ways to create particular cases as configurations. It is proposes that these particular bundles influence the ability of MNCs to overcome institutional distance. This has methodological implications, which will be discussed next.

3.1 Methodological Implications and Promising Research Avenues

The IB field has (re-) discovered qualitative research designs yielding in-depth, rich, and oftentimes longitudinal data on how MNCs respond to institutional host environments (Birkinshaw et al. 2011; Fortwengel and Jackson 2016; Regnér and Edman 2014; Saka-Helmhout and Geppert 2011). In particular, comparative case studies offer a powerful methodological tool to explore more complex effects of context conditions on firm behavior. In contrast, quantitative, large-*N* studies relying on regression analyses may miss important interaction effects. For example, while there are studies that disentangle various parts of the institutional environment and thus move us closer to acknowledging the complexity of institutional settings, most of them examine contrasting (Chao and Kumar 2010) or differentiating effects (Michailova and Ang 2008) without paying attention to important interaction effects, many of which can be complex causal in nature. Causal complexity encompasses "equifinality, conjunctural causation, and causal asymmetry" (Schneider and Wagemann 2012, p. 78), meaning that there is more than one pathway producing a particular outcome (equifinality), outcomes are produced by a set of conditions interacting with each other (conjunction), and conditions can represent different relations across configurations (asymmetry) (Misangyi et al. 2017).

In addition to comparative multiple case study research designs, Qualitative Comparative Analysis (QCA) promises to offer contextualized insights into the particular conditions enabling MNCs to overcome distance. In particular, QCA methodology may be useful to assess institutional environments as comprised of the four dimensions discussed in this paper, and how these may interact to form distinct configurations and bundles with particular effects on MNCs and their ability to engage in deviant behavior illustrating the overcoming of institutional distance (cf. Ragin 1987). Unlike most existing literature on institutional distance, which usually examines the net effects of aggregate distance measures on firm behavior, QCA methodology suggests looking at necessary and sufficient conditions that explain a particular outcome (Kurtz and Schrank 2012), here deviating from standard practice in a host setting.

QCA also seems particularly suitable for IB research, as it accommodates small- to medium-*N* research, and much research on institutional distance in particular is about country pairs or a small set of countries (Pajunen 2008). Furthermore, QCA lends itself to comparative analysis, the kind that is needed to understand the particular differences involved between institutional environments as one main field of research in IB. Due to these features, QCA is increasingly popular among organization scholars (Fiss 2011; Meyer et al. 1993; Misangyi et al. 2017), and has been used effectively in a variety of research settings, such as the question of how we may explain varying capacity for change in firms (Judge et al. 2015), corporate governance effectiveness (Aguilera et al. 2008), or, at a macro comparative level, the question of how different institutional settings lead to innovation specialization (Hotho 2014).

QCA methodology is interested in the particular configurations of a set of variables—or conditions—leading to a particular outcome. The underlying assumption is that increasing levels in one variable do not necessarily lead to mirroring effects in the dependent variable, but rather that the variables may be interdependent and rely on each other for their collective, configurational effect. Here, and drawing on facets of research at the intersection of CC and IB, this paper suggests that different values for coordination, strength, thickness, and resources combine in unique ways to affect the outcome of interest—whether an MNC engages in deviant behavior, meaning that it operates 'outside the comfort zone' in a particular host environment.

This raises the question of how the various sets can be calibrated, or on what basis researchers may group a particular case to be a case where a particular attribute is either absent or present. In QCA methodology, this relates to the question of whether a particular case is a member of a particular set or not. But going beyond QCA, this touches on the important question of how to operationalize and measure institutions (Kurtz and Schrank 2012; Schrank forthcoming; Voigt 2009). Here, the argument that distance will be issue-specific suggests that large-*N* studies across countries, firms, and issues will have limited validity. Instead, deep knowledge of the particular case at hand is relevant in order to dichotomize data according to the

QCA methodology (cf. Ragin 2000). For calibrating the model, researchers may find useful constructs in neighboring disciplines. For example, Hall and Gingerich (2009) perform a factor analysis to measure the degree of coordination in a number of countries. More specifically, they identify a set of variables to describe the degree of coordination in the domains of labor relations and corporate governance. These are shareholder power, dispersion of control, size of stock market, level of wage coordination, degree of wage coordination, and labor turnover. For example, high labor turnover would indicate more market-based coordination, involving fluid labor markets on which portable skills are traded rather openly. These measures could be used to group a particular host country as either different or similar to a particular home economy, depending on the dimension of coordination.

To measure institutional strength, researchers might need to conduct survey-based primary research, for strength will be highly issue-specific. In fact, many traditional ways of measuring institutions can be misleading. For example, the economic freedom index is likely to provide a biased picture, for it equates institutional strength with support for market-based activities (cf. Meyer et al. 2009). Meanwhile, MNCs may oftentimes engage in activities that require other forms of coordinating business activities (Ahmadjian 2016), such as more strategic and relational coordination, where strong market forces are in fact detrimental (e.g., Corredoira and McDermott 2014). Similarly, while previous research has looked at the time span over which a particular practice has been implemented (Haxhi and Aguilera 2017), this approach may offer only limited insights into the pressures for conformance.

Institutional thickness, in contrast, may be easier to measure. For example, the number of MNCs from the same home country in the local region may be a good proxy for this because it can be assumed that these firms will share many basic understandings of appropriate or conceivable business practices. Alternatively, FDI flows at the regional or provincial level can be a useful measure (cf. Meyer and Nguyen 2005), as this suggests that there will be a larger number of organizations to interact, and potentially collaborate, with over the course of engaging in deviant behavior.

Finally, institutional resources may again be difficult to measure, and may actually require rather deep engagement with and knowledge of the particular host environment. Here, qualitative research approaches involving interviews with key stakeholders may be appropriate and probably necessary to develop an understanding of the extent to which a particular host environment may offer distinct sets of resources to an MNC. Alternatively, researchers may rely on indicators measuring the degree of variation within a country. For example, recent IB research has made effective use of literature in the field of political economy to argue that ethno-linguistic diversity may be a good proxy for cultural variation within a particular country (Beugelsdijk et al. 2014). Extending this line of argument, one could claim that high levels of ethno-linguistic diversity may suggest that foreign MNCs may find a rich source of resources in the host environment, which they may use in new and creative ways in order to overcome institutional distance. Conversely, high levels of diversity or complexity may also hinder MNCs in their attempt to overcome distance, under certain conditions and depending on the presence or absence of other predictor variables. For example, in settings with high institutional strength, MNCs might be able to deal with complexity better. Studying the assumed complex interaction effects between these four critical dimensions promises to advance our understanding considerably, by helping to theorize and explain when exactly MNCs can overcome institutional distance and behave in ways deviating from standard practice in host environments. While QCA allows researchers to study complex effects across a mid-range number of cases, it frequently involves relying on proxy indicators, which creates the danger that the analysis may be too detached from the empirical phenomenon at hand. Here, multiple comparative case studies can provide the necessary depth. Thus, it would be particularly promising to combine these two research designs (see Misangyi et al. 2017) to further our understanding and enable theorization on when MNCs can engage in deviant behavior in light of institutional distance. Here, identifying different typologies of institutional distance enabling particular pathways of deviant behavior would be a particularly worthwhile endeavor.

3.2 Conclusion and Outlook

In a recent review article, Hutzschenreuter et al. (2015, p. 169) argue that "we believe that it is important to consider multiple dimensions of distance. Indeed, we see no other way of reaching a more holistic understanding of distance. […] However, to date, such a differentiated perspective—which would, without doubt, yield interesting and important insights—is rarely taken." This paper sought to develop such a differentiated perspective by discussing four dimensions of institutional distance, arguing that these will have complex effects on the ability of firms to overcome institutional distance.

This paper makes several distinct contributions to existing literature. First, it offers a definition of overcoming institutional distance as involving deviant behavior (cf. Aguilera et al. 2016), that is, behavior that departs from dominant norms, cognitions, and rules and regulations in host settings. As such, the paper enriches our conceptual toolbox to capture and analyze processes and activities of strategic firm responses in IB (Regnér and Edman 2014). Second, the paper offers a more holistic understanding of institutional distance involving four key dimensions: coordination, strength, thickness, and resources. This more fine-grained conceptualization of institutional distance and associated context conditions then paves the way for the third contribution, which involves opening up the possibility to explore the configurational relationships between those dimensions and their complex effects on MNCs and their ability to overcome institutional distance. Leveraging the MNC, in particular its quest to overcome distance, as a research context also promises to push the boundaries of our understanding of the complex relationship between institutions and (collective) actors in IB, and in organization theory more broadly (Fortwengel 2017; Kostova et al. 2008).

Future research along these lines will help us to understand more and explain better how context and agency are interdependent and constitute each other in distinct ways (McGaughey et al. 2016). For example, it is conceivable that non-conformance, i.e. deviance, may trigger relevant processes of institutional dynamics and change (Aguilera et al. 2016; Colyvas and Maroulis 2015), introduced by MNCs. While this suggests the possibility that MNC activities may help decrease institutional distance by influencing host environments as powerful collective actors (Edwards et al. 2013; Faulconbridge and Muzio 2015), a first important step would be to better understand and explain the configuration of different cases of institutional distance, and their complex effect on MNCs in their constant quest to operate effectively across national and institutional borders. Furthermore, while it is certainly conceivable that the ability to overcome distance and engage in deviant behavior in a host setting depends on organizational factors (Aguilera et al. 2016; Saka-Helmhout and Geppert 2011) such as size, age, capabilities, or international exposure and experience[3] as well, this paper contributes to the literature by mapping out a research agenda drawing on facets of the CC literature, thus focusing on the institutional context conditions that influence firm behavior in non-random ways. As such, one key contribution to the literature is that the paper shifts attention away from the MNC as an actor, and the way it organizes its engagement with host countries leveraging distinct governance modes (Fortwengel 2017; Fortwengel and Jackson 2016), in order to emphasize the institutional conditions influencing the ability of firms to emerge as agents and overcome institutional distance. These are complementary theoretical perspectives, offering unique promises for integration and cross-fertilization, and exploring the complex effects of institutional distance as a multi-dimensional phenomenon will help us address remaining key questions and answer the critical puzzle of when MNCs can overcome institutional distance.

[3] I would like to thank one of the anonymous reviewers for raising this point.

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